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Market Update: 19th August 2020

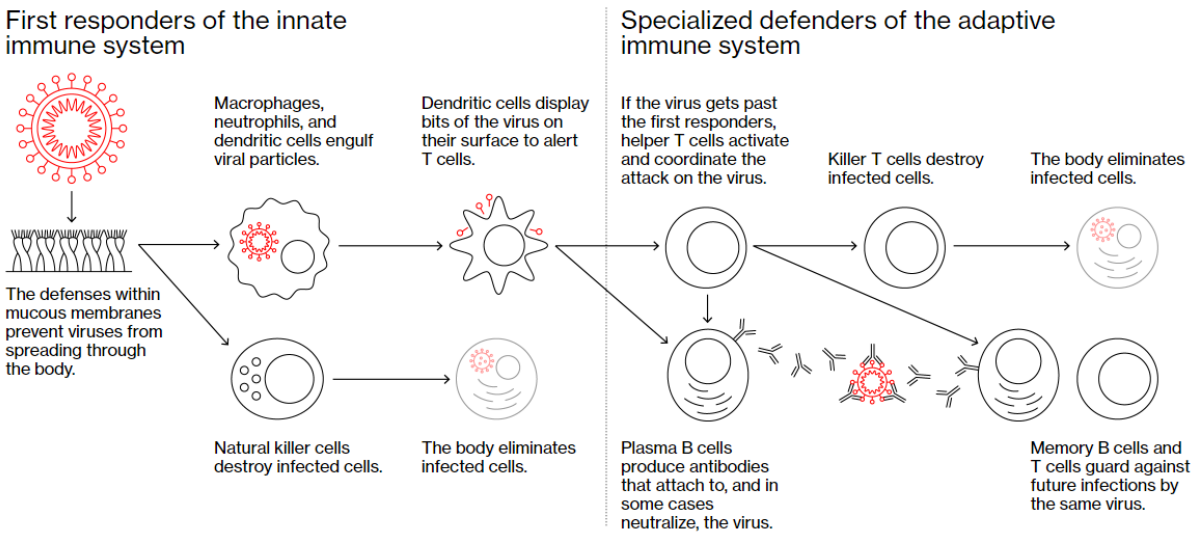
The global economy is currently in a rebounded recovery, with third quarter growth rates expected to erase some of the deepest contractions since the 1930s experienced in the second quarter. Yet, its clear that a full recovery will be nigh on impossible until a viable vaccine is discovered. Until then, consumers will remain on edge, companies will be held back, and restrictive measures will remain in place. Despite quiet periods where little is reported on the race for a vaccine, progress is being made which is beginning to provide markets with optimism moving forward.

Global front runners

With the world's first regulatory approval last week, President Putin announced that Russia has won the vaccine race in developing a treatment for coronavirus. Usually, we would expect markets to launch on the news that a vaccine had successfully been developed, where it would eradicate the current global uncertainty and allow economies to return to their pre-pandemic activity. However, the vaccine denoted as 'Sputnik V' did not garner the reaction one would typically expect, as mystery surrounds its rushed regulatory endorsement and small-scale human testing. Despite some nations agreeing to use Russia's vaccine, including the UAE, Saudi Arabia and Brazil, the remaining global powers are continuing their own pursuit of a vaccine, which is both safe and reliable.

There are four candidates heading the vaccine race currently:

- Biotechnology company Moderna and the National Institute of Allergy and Infectious Diseases (NIAID) have formed a US based vaccine, delivering snippets of a target virus's genetic code into human cells, which translate the code into viral protein. It is in its phase 3 trial, enrolling 30,000 volunteers for testing.
- Chinese based CanSino and China's military are collaborating to create a viral vector-based vaccine using a weakened adenovirus that circulates in humans. The vaccine began its phase 3 trials at the start of August in Russia and Saudi Arabia.
- BioNTech and Pfizer are collaborating on a German and US based vaccine, delivering snippets of the genetic code spike protein into human cells. The vaccine moved into a phase 2/3 clinical study towards the end of July.
- Lastly, the UK based Oxford University and AstraZeneca vaccine is viral vector-based, where a spike protein is packaged into a weakened type of adenovirus that infects chimpanzees, which then gets delivered to the immune system. This vaccine, which has led to positive results in its phase I and II trials, is arguably the front runner, where phase 3 trials have been underway in the UK, Brazil and South Africa since mid-July.



Source: Bloomberg

UK Vaccine Developments

Sarah Gilbert and her colleagues at Oxford's Jenner institute are responsible for the UK's significant vaccine progress. The difference between the UK's effort and China's viral vector-based vaccine is that the latter is based on a human rather than chimpanzee adenovirus. Many humans have already developed the pre-existing antibodies to a human adenovirus, which in turn neutralise the vaccine before the desired immune response. Not only is the UK based collaboration superior to other adenovirus vaccines, but adenovirus vaccines have the added benefit of only needing to be kept chilled rather than frozen, making them easier to distribute worldwide. Gilbert has voiced her remarkable confidence, saying this vaccine has an 80% probability of being effective.

The reason for the UK's vaccine development speed is due to the early start Gilbert had. Back after the Ebola outbreak, Gilbert responded to a request from the WHO to develop a plan for 'Disease X' – the unknown yet inevitable pathogen lurking around the corner. As a result, in 2015, Gilbert began working on a vaccine for a different type of coronavirus – MERS. This equipped Gilbert with the knowledge base and manufacturing ability to begin testing mice in January and has successfully navigated the subsequent tests and funding hurdles along the way.

Implications

One of the benefits of being the nation to first develop a vaccine is the preferential distribution to the nation's population. If Gilbert's vaccine is the first, it may allow the UK to become the first truly pandemic-free nation, allowing the economy to fully open earlier than others. As the UK faces short-term uncertainty in the Brexit deadline and continued recovery from the pandemic, a vaccine would provide greater certainty which could strengthen the UK's path to recovery.

For the UK Prime Minister, being the first to develop a universally accepted vaccine is arguably high up on their priority list. Boris Johnson has been one of the hardest hit leaders, with the highest death toll in Europe and the biggest economic meltdown just prior to leaving the European Union. If AstraZeneca and Oxford University were to win the vaccine race, not only would it help the UK government make up for its tainted image, but it would also help cement the UK as a world leading independent entity upon leaving Europe.

For the financial markets, the news of a vaccine would likely result in a rally in risky assets. Medical and scientific professionals would be able to provide the government, businesses and individuals with

a realistic timeline of when operations can return to normal, allowing plans to be made and expectations to be formed. This in turn will help support jobs, reduce business defaults and allow adequate government policies to be made for the medium and long term. The government will be aware of the need to withdraw stimulus efforts, in order to reduce their deep budget deficits. Yet, withdrawing the stimulus too hastily could spike investor concern as it did in 2013. Back then, equity markets fell on the news of the withdrawal of the quantitative easing programme in the US. Hence, even when a vaccine is developed, governments must plan the gradual reduction of their stimulus efforts.

Where next?

Once a successful vaccine has been developed, the next major challenge is manufacturing it. It has been estimated that to achieve sufficient levels of immunity among the global population with a two-dose vaccine, which is what some of the COVID-19 vaccines require, we would need between 12 billion and 15 billion doses – roughly twice the world's current total vaccine manufacturing capacity. Governments have so far invested $10bn in Covid-19 vaccines, making forward purchases of about 4bn doses. In theory, this would be enough to inoculate the world's most vulnerable people, however in reality it will only be enough to supply those at the front of the queue. Japan, for example, has arranged to buy enough for just one dose per person. To achieve global immunity, international collaboration will be required to achieve the inoculation required for the global economy to return to pre-pandemic activity. Yet, even if nations were to shift to exclusively manufacturing a COVID-19 vaccine, it may mean shortages of other vaccines, which could cause issues further down the line.

The next challenge is distributing the vaccine. Most vaccines need to be transported in cold storage, which presents a problem for many parts of the world where electricity failure is a common feature of daily life. The WHO has estimated up to 50% of vaccines are wasted every year, often because of inadequate temperature control in supply chains. Hence, even if developing nations were able to get an allocation of the vaccine, we are likely to see a proportion wasted due to inadequate storage.

Third is the issue of pricing a vaccine. Usually, vaccine developers patent their products before they have even passed all the necessary trials, in a bid to protect their development and charge a price with a healthy margin once approved. However, Pfizer and BioNTech signed a $2bn deal to supply their experimental vaccine to the US with a price ceiling of $20 a dose. Many would agree that the fastest way to end the pandemic is through collaboration and making a vaccine viable, which acts in the public good. Albeit others may not follow the same pricing strategy. Moderna CEO announced that, after the worst phase of the pandemic ends, pricing considerations will follow traditional dynamics and market forces. This may cause issues in eradicating the pandemic globally if it is not widely accessible, whilst also potentially maintaining unnecessary global uncertainty.

Our view

The volatility in financial markets over the past few months has demonstrated the effect uncertainty and worry has on the market. Despite the fastest vaccine previously taking 4 years to develop, our expectations are aligned with that of governments and the markets globally which expect a vaccine by the first half of 2021. If this is the case, it means that we can come to expect positive updates to come out in the second half of 2020, further adding to the volatility expected from the US election, Brexit and pandemic developments. In mid-July, positive news on a Covid-19 vaccine development fuelled investors with optimism, causing the indices to rally. That being said, even if further news causes markets to rally, we still face the reality of localised lockdowns and social distancing measures to taper the lingering virus. After Q3 in the UK, we expect these factors to maintain a subdued level of

growth in the short term until a vaccine is developed. Although we must go ahead on the assumption that a vaccine is not available for now, an effective vaccine would further improve our medium to long term outlook, further adding to expected returns over the coming 2-3 years. Although we are positive, we are also considering the challenges after a vaccine development which many may not be considering yet – manufacturing, pricing and distribution efforts. We believe, once the most vulnerable are inoculated in developed countries, the global community will begin to focus on dose provisions for developing nations, either through subsidised prices or manufacturing preferences. The CEOs leading the vaccine developments may not be as focused on the global public good as governments are though. As a result, we believe full collaboration between the pharmaceuticals, governments, manufacturers and distributors will be required to remove coronavirus from any medium-term concerns.